B5350-2 9/21/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 20, 1982 VOLUME XIX, NUMBER 38

A Detour In August . . .

With autumn just around the corner, hopes for a late-summer rebound in the pace of business activity are fading almost as rapidly as the intensity of the sun's rays. Despite earlier expectations that at least a modest recovery would be underway by midsummer, a renewed decline in retail sales in August, together with further drops in industrial production and capacity utilization rates, have clearly dampened such optimism. What is more, a look at the latest batch of weekly statistics still points toward substantial economic weakness—providing a seemingly endless array of bleak economic news, and making it a good bet that real GNP growth in the current quarter was virtually flat, at best.

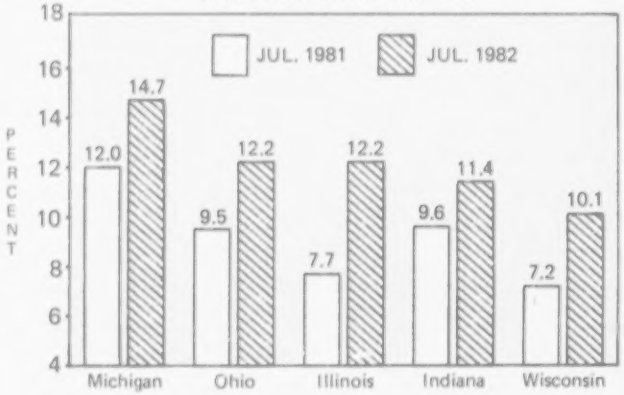
Perhaps the most discouraging economic statistic reported last week was the drop in retail sales. According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, declined 0.9 per cent in August month-over-month, following a 1.2 per cent gain in July. Since it was widely anticipated that consumers would boost spending following the July 1 cut in personal income tax rates and the upward cost-of-living adjustment to Social Security payments, the renewed decline in retail sales was a most unwelcome development—raising significant doubts as to whether stepped-up consumer spending will prompt economic recovery any time soon. Judging by retail sales trends alone, in fact, an economic upturn may be a long way off. During the three months immediately following the bottom of each of the past three recessions, retail sales have increased, on average, by 1.6 per cent per month. Over the past three months, retail sales have actually declined by an average of about one per cent per month.

To be sure, a good-sized chunk of last month's decline in retail sales stemmed from another slump in automobile sales. However, even when autos are excluded from the total, the news is still grim. Nonautomotive retail sales in August were up just 0.1 per cent month-over-month, well below the 1.2 per cent seasonally adjusted gain in July. And with dealers unable to sell most of the cars already built, it is hardly surprising that the weakness in the automobile industry extends far beyond the sales statistics and into the nation's production indexes as well.

. . . On The Road To Recovery . . .

With the 1982 model year winding down and sales running at an anemic 5.3 million unit seasonally adjusted annual rate in August, auto assemblies fell to a seasonally adjusted 5.5 million unit annual rate last month, or 17 per cent below month-earlier levels. This was largely responsible for the 0.5 per cent month-over-month dip in the overall industrial production index in August. The decline of 10.3 per cent since July, 1981 now surpasses the 9.7 per cent peak-to-trough decline in industrial production posted, on average, during the past three recessions.

UNEMPLOYMENT RATES IN SELECTED MIDWEST STATES
(NOT SEASONALLY ADJUSTED)



As if the malaise affecting the auto industry was not sufficiently grim, the current position of the steel industry is even worse. During the first full week in September, steel output fell almost 50 per cent below year-earlier levels, while capacity utilization rates industry-wide dropped to just 39.8 per cent, the lowest operating rate since the 1930s. As a result, employment in the industry continued its free fall, tumbling below 285,000 workers, and leaving more than one out of every five steelworkers out of a job.

Copyright 1982
Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

Nor is the outlook much brighter in the paperboard industry. Paperboard production, used for packaging most goods and thereby indicative of eventual shipment levels, usually begins to rebound before the rest of the economy. But rather than narrowing in August, year-over-year output declines actually widened. Whereas production in the final week in July was down 8.5 per cent year-over-year, by the last week in August it stood almost ten per cent below year-ago levels. So, too, in the housing and lumber, electric power and transportation industries, the slump goes on. Not surprisingly, initial unemployment claims have continued surging ahead and business bankruptcies continue to set post-Depression highs. All of this suggests that, even if it is eventually decided that recovery began this summer, the August results certainly bode ill for both its strength and duration.

. . . Hits The Midwest Particularly Hard

For the Midwest, already hit harder than other regions of the country by the prolonged recession, the recent bleak economic news clearly portends more hard times ahead. This region, which comprises a large proportion of the nation's industrial heartland and is one of its most important agricultural areas, produces more than one quarter of all manufactured durable goods and one half of the nation's corn, soybeans and pork.

The prolonged economic slump has now fully affected the region's manufacturing and non-

Selected Federal Reserve Data

	Week Ending 9/8/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.046	– .933	+ 8.769
Loans to Depository Inst.	.944	+ .437	– .634
Float	2.024	+ .526	– .414
Total Reserve Bank Credit	152.804	– .333	+ 8.285
Treasury Deposits with Federal Reserve Banks	3.776	+ .619	+ 1.009
Currency Outside Banks	132.409	+ .441	+ 8.713
Member Bank Reserves:			
Required	38.691	– 1.380	– .617
Excess (Deficiency)	.804	+ .503	+ .354
Total Reserves Held	39.495	– .877	– .263
Net Borrowed Reserves	.034	– .077	– .877
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.442	+ 3.457	+ 4.872
Monetary Aggregates†		**$ Change Since Week Ago**	**$ Change Since Year Ago**
M1	461.2	+ 3.9‡	+ 6.1‡
M2 (August '82)	1,946.1	+ 10.2	+ 9.8
M3 (August '82)	2,355.3	+ 13.3	+ 10.8
L (April '82)	2,752.3	+ 12.7	+ 12.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 9/17/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.90%	9.40%	10.05%
* Federal Agencies	9.05	10.05	10.85
* Project Notes–Taxfree (46% Taxable Equivalent)	8.33	9.63	11.57
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.95	11.70	12.50

‡Finance Company Paper–Prime

5- 14 days	9.38%
15- 29 days	9.88
30- 59 days	10.13
60- 89 days	10.25
90-179 days	10.25
180-239 days	10.25
240-270 days	10.25

‡* Bankers' Acceptances

Oct.	10.30%
Nov.	10.40
Dec.	10.65
Jan.	10.85
Feb.	11.05
Mar.	11.00

‡Industrial Paper–Prime

30- 89 days	10.00%
90-120 days	10.38

†Federal Funds Effective Rate 10.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82		$ 3,041	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82		$ 1,475	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82		1.3	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jul	'82	7.2%	12.0%	13.2%
Change in Producer Prices*	Aug	'82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Aug	'82	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force†	Aug	'82	9.8%	9.8%	7.3%
Personal Income*	Jul	'82	$ 2,592	$ 2,567	$ 2,436
Leading Indicators Composite Index (1967=100)†	Jul	'82	129.8	128.1	134.8
Industrial Production Index (1967=100) †	Aug	'82n	138.0	138.7	153.6
Net Change in Consumer Installment Credit†	Jul	'82	$ 0.57	$ 1.35	$ 1.55
U.S. Merchandise Trade Balance †	Jul	'82	–$ 2.42	–$ 3.44	–$ 1.78
Plant and Equipment Expenditures*	4th	Q'82n	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug	'82n	1,002	1,195	946
New Construction Expenditures*	Jul	'82	$ 228.5	$ 230.2	$ 238.1
Total Business Inventories†	Jul	'82n	$ 513.4	$ 512.8	$ 504.7
Total Business Sales†	Jul	'82n	$ 345.4	$ 345.6	$ 355.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

manufacturing sectors, resulting in widespread layoffs in such industries as motor vehicles, farm and construction equipment, appliances, industrial machinery and steel. In July, 1982, the jobless rate exceeded the national average in all Midwest states (see chart on page 1), while a rate in excess of 20 per cent was reported by many counties within the region. Total manufacturing employment in July, 1982 was 20 per cent below its peak level of 1978, reflecting substantial drops in steel, farm equipment and industrial machinery production.

Many of the problems of the Midwest can be attributed to the rapid escalation of world oil prices and to increased foreign competition. These factors have had an especially severe impact on the motor vehicle industry. For example, the number of domestically-produced cars during the first eight months of 1982 ran at an annual rate 44 per cent below 1978 levels. In the same period, imported cars increased their share of the market from 18 per cent to 28 per cent. So, too, truck output during the January-August 1982 period was 46 per cent below 1978 levels, while truck imports accounted for 17 per cent of total sales, up from eight per cent in 1978. For the Midwest, which produces half of the nation's cars and trucks, this has resulted in a substantial decline in employment in the motor vehicle industry. Since 1978, three out of every ten workers employed by this industry in the Midwest have lost their jobs.

In addition to reducing sales of goods manufactured

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change From Week Ago	Change From Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/1/82)	148,634	– 1,164	+18,806
New York City (9/1/82)	40,411	+ 184	+ 9,119
Commercial Paper (9/1/82)	173,918	– 2,728	+20,030

Bank Loans

(Millions of Dollars)

	Latest Week	Change From Week Ago	Change From Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (9/1/82)	212,759	+ 2,449	+27,288
New York City (9/1/82)	59,963	+ 906	+ 5,767
Total Loans Gross Adjusted			
Nationwide (9/1/82)	495,454	+ 5,868	+42,656
New York City (9/1/82)	118,681	+ 2,696	+10,115

Financial Markets

	Friday 9/17/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.12%	– .47	– 6.28
180-Day Bills†	10.00	– .35	– 5.10
Longest Bills†	11.00	– .10	– 4.75
Recent Issues:			
12 1/8s 9/30/84 (When Issued)	11.97	NA	
14 7/8s 6/30/86	12.51	– .08	
13 3/4s 5/15/92	12.47	– .17	
14s 11/15/11	12.07	– .30	
Municipals:			
Bond Buyer–20 Bond Index* (9/16/82)	10.74%	– .01	– 2.05
Blue List Total ($ Million)	$1,145	+ $151	+ $ 583
30-Day Visible Supply ($ Million)	$2,750	– $333	+ $1,341
Total	$3,895	– $182	+ $1,924
Corporates:			
Moody's Aa Composite (9/16/82)	13.82%	– .04	– 1.90
30-Day Visible Supply ($ Million) ‡	$1,285	+ $255	NA
Stocks:			
Dow-Jones Averages:			
Industrials	916.94	+ 10.12	+ 80.75
Transportation	362.26	– 7.34	+ 16.75
Utilities	115.63	+ 1.15	+ 11.39
65 Stocks	354.93	+ .76	+ 27.85
Standard and Poor's 500 Stocks	122.55	+ 1.58	+ 6.29
N.Y.S.E. Composite Index	70.35	+ .94	+ 3.08
N.Y.S.E. Avg. Daily Vol. for Week (000's)	71,154	– 1,769	+ 28,692

* 46% Taxable equivalent 19.89%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

	Friday 9/17/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	10.75%	10.63%
1 month	11.38	11.25
3 month	12.13	11.88
6 month	13.00	12.81
1 year	13.25	13.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	13.50%
Long Term (7 to 15 yrs.)	13.65	13.65

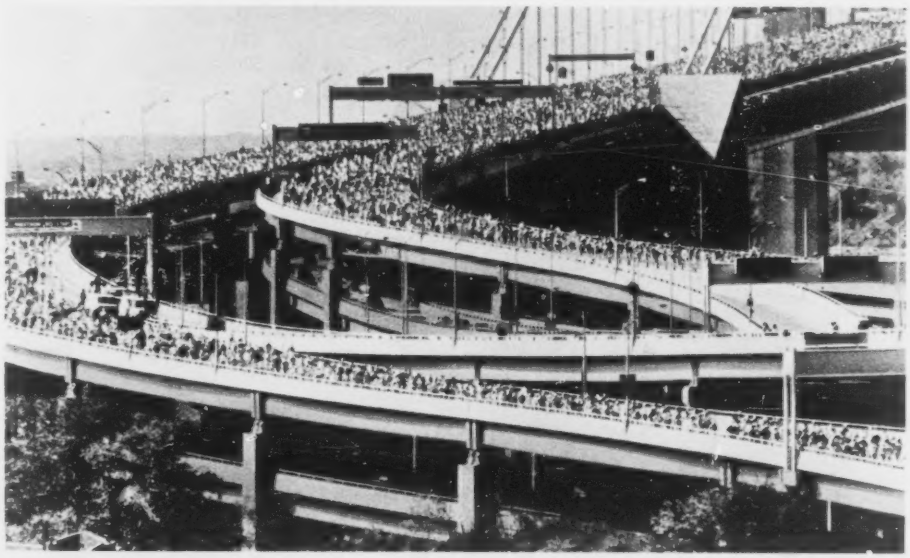
FOREIGN EXCHANGE SPOT RATES

New York Opening (9/17/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02080	48.08
Canada	.8104	1.2339
Denmark	.1130	8.8495
France	.1414	7.0700
Germany	.3998	2.5010
Italy	.0007112	1406.10
Japan	.003794	263.55
Mexico	.01250	80.00
Netherlands	.3650	2.7400
Switzerland	.4689	2.1325
U.K.	1.7090	.5851

in the Midwest, high fuel prices, which increased production and living costs, forced many companies to move to the Sunbelt. Many laid-off workers, unable to find jobs, also headed south in hopes of finding employment.

Not surprisingly, the nationwide decline in construction activity has hit the Midwest harder than other regions. Nationally, housing starts during the first seven months of 1982 ran at a seasonally adjusted annual rate almost 60 per cent below the peak reached in the early 1970s, but in the Midwest they ran 70 per cent below that peak. What is more, the boom in office building construction in Chicago, which had for so long offset the sluggishness in other types of nonresidential construction activity in the region, has faded. The recent glut of office space in Chicago has not only pushed vacancy rates higher as demand has fallen, but has also dampened rents and deterred new projects.

While the industrial sector of the Midwest is languishing, the farming sector, mired in its own recession, has yet to offer any relief for the region's troubled economy. Net farm income, before inventory adjustment, is expected to fall in 1982 for the third consecutive year—to its lowest level since 1977—reflecting lower agricultural prices, higher interest expenses and skyrocketing production costs. The recession in the agricultural sector has also caused farm equipment sales to plunge almost 50 per cent over the past three years. In contrast with earlier industrial downturns when agriculture has often remained prosperous, this time, the dip in farm activity has combined with the downturn in industrial activity, dealing the Midwest a staggering blow. ■



The New York City Marathon, co-sponsored by Manufacturers Hanover

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

For example, our subsidiaries now have more offices nationwide than any other bank holding company, giving us instant access to both large and middle market companies. This enables us to provide other financial services besides banking—factoring, equipment financing, and mortgage lending.

But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

MANUFACTURERS HANOVER
The financial source.Worldwide.

Member FDIC